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# **Human Resource outsourcing market potential in Saint-Petersburg**

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<p>This thesis aims at exploring current market potential in Saint-Petersburg, Russian Federation, in offering Human Resource outsourcing services for Finnish companies, establishing their representative offices in Saint-Petersburg.</p> <p>The study is conducted for a commissioning party, a Finnish company, providing a wide range of Human Resource outsourcing services in Finland. The main objective of the study is to examine a need of potential customers - Finnish companies, operating in Saint-Petersburg market - for Human Resource outsourcing services, offered by the commissioning party.</p> <p>Theoretical part of the thesis explains the concept of Human Resource outsourcing and gives general knowledge about Human Resources practices in Russia; empirical part of the thesis presents information, collected from the interviews with Human Resources managers and Finnish expatriates, working in Finnish companies in Saint-Petersburg, as well as from the Finnish outsourcing provider, operating in the chosen market.</p> <p>The research method of this thesis is chosen to be qualitative and the main tool - interviews.</p> <p>The results of the research deepened the commissioning party's understanding of the Human Resource outsourcing market potential in Saint-Petersburg and are considered useful for its future operations.</p>	
<b>Keywords</b> Human Resource Management, HR outsourcing, outsourcing provider, HR function	

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# 1 Introduction and background of the study

In tough economic conditions businesses always search for solutions to stay competitive by cutting their costs. Outsourcing has always been understood by business leaders as a good tool to save money and get the opportunity to focus on core business tasks by passing some burdens to external vendors. Huge amount of recent redundancies all over the world, caused by severe financial crisis in 2008, put a big pressure on Human Resources departments. Taking into account the fact, that HR departments usually spend lots of their time on routine tasks, HR leaders, especially in present conditions, seek for more options to reduce their involvement in routine work and focus more on strategic issues, such as improving business performance and defining competitive advantages. For example, talks about talent pools and pivotal employees appear to be one of the current topics in many discussions in Human Resources related business forums, researches and conferences. According to the PwC' 13th Global CEO Survey, 35 % respondents said they plan to outsource a business process or function in the coming year (PwC 13th Annual Global Research Survey 2010, 2).

Appearance of new technologies and development of HR software convinced many businesses to re-consider advantages and disadvantages of HR outsourcing. HR outsourcing vendors have become more capable in providing services of high excellence, tailored to a single customer's needs. International reviews state, that outsourcing of HR activities nowadays is not only limited to routine practices, such as payroll administration and pension plans, but broadened to more complex ones, such as recruiting, training and assessment of personnel. Moreover, HR outsourcing vendors are ready not only free HR departments from their daily routine, but share broad professional knowledge and provide help in shaping companies' competitive advantage.

The thesis topic emerged from a real business need of a Finnish HR service provider. Observing the growing co-operation between Finland and Saint-Petersburg, the closest biggest city in Russia, and also amount of Finnish companies, which have opened their representative offices in Saint-Petersburg, the commissioning party decided to investigate a potential need for its expertise in HR issues for Finnish companies, operating in

Saint-Petersburg market. The commissioning party's services specifics brought a question, whether or not Finnish companies in Saint-Petersburg would be interested to delegate HR functions - not of simple administrative nature, but of more strategic one, that adds value to companies' performance – to an HR outsourcing provider. The commissioning party had knowledge neither about HR processes in Russia, nor about HR outsourcing market in Saint-Petersburg. The author agreed to conduct the study and use the material for the Bachelor Thesis. In accordance with the commissioning party's agreement, the name of the company will not be disclosed and mentioned as the commissioning party.

### **1.1 Commissioning party introduction**

The commissioning party is a professional human resource service provider, operating on the Finnish market for almost 10 years. The company provides help in HR operational issues at all stages of employment and covers all management aspects.

The company offers a wide range of services for outsourcing:

- HR administration & Payroll;
- HR Professionals for short and long term HR assignments;
- Recruiting & Assessments of personnel;
- HR Consulting related to different HR projects, management development, training and coaching.

The commissioning party's personnel accounts for about 30 specialists, a large part of which work in the customers' premises for different projects and assignments.

Throughout all the projects and tasks, the customers are consulted in issues concerning Finnish labour law and employment relationship. Each commissioning party's specialist is supported by the whole team in order to deliver professional knowledge and best service solution to a customer.

## **1.2 Objectives and limitations**

The main objective of the research is to find out if there is a need for Finnish companies, already operating or opening operations in Saint Petersburg, Russia, to use services of Finnish HR outsourcing provider.

At the first meeting with the commissioning party, there was relevant research topics discussed. The commissioning party was primarily interested in different HR-related topics of the chosen market, such as specifics of HR operations, legal regulations, and labour market conditions in Saint-Petersburg. Throughout the thesis, these topics are referred to the whole Russian market in general as it was considered by the author after exploring the relevant material, that Saint-Petersburg market did not have any specific features, which could be relevant and important to the research.

Interest of the commissioning party to HR outsourcing market in Saint-Petersburg also brought a task to explore the chosen market for the purpose of existing competition. Nevertheless, after some research, undertaken by the author, and followed discussions with the commissioning party, it was agreed to leave this topic for a separate study due to its wide scope.

In order to reach the objective the author reviewed relevant theoretical and periodical material and collected opinions about current situation on the subject of HR outsourcing services through interviews with HR managers and expatriates, working in Finnish companies, operating on Saint-Petersburg market.

## **1.3 Thesis structure**

The thesis consists of seven chapters. Introduction chapter provides background information for the thesis, outlines the objectives and limitations of the research and explains the choice of chosen theoretical material.

Theoretical part of the thesis is divided into two separate chapters. The second chapter discusses the concept of HR outsourcing, its advantages and disadvantages, as well as

factors, affecting HR outsourcing decisions, related to HR functions delegated for outsourcing and a choice of HR outsourcing provider. The third chapter presents information about development of Human Resource Management in Russia, based on historical events, and current trends in HR practices. Subchapter 3.7 describes the present situation of HR outsourcing market and discusses future forecasts.

The fourth chapter describes research methodology and explains how the data for the empirical research was collected. The empirical research material is presented in empirical part – fifth chapter of the thesis. It presents material, collected from the interviews with HR managers and expatriates working in Finnish companies in Saint-Petersburg, as well the outsourcing provider, already operating on the chosen market.

Sixth chapter outlines key results, validity and reliability of the findings; provides recommendations for the commissioning party and suggestions for further researches; reflects on personal learning.

#### **1.4 Theoretical framework and key concepts**

The main concept of the thesis is a concept of HR outsourcing. The relevant material was selected from reliable international sources, related to Human Resource Management and particularly chapters, devoted to outsourcing. International books about outsourcing in general were also explored and regarded as beneficial for building the theoretical framework. The author faced challenges to find separate academic sources, covering the subject of HR outsourcing, thus the material had to be collected from international surveys and articles from the internet.

Theoretical material on HR practices in Russia was also considered highly relevant for scope of the study as it gives a possibility for the reader to view HR outsourcing phenomenon in a new perspective of the chosen market and its specifics. The main academic source, used and widely cited by the author is a collective work about managing Human Resources in Central and Eastern Europe (2009) with a separate chapter, describing HR practices in Russia. Due to lack of academic material written on the subject topic in English, the author used periodicals, electronic sources and conducted



researches in Russian, published in last 5 years in order to present the most up-to-date information about the topic. The reliability of the chosen sources in Russian was thoroughly assessed by the author. Sources, written in Finnish, were not utilized by the author, due to lack of language knowledge.

## **2 The concept of HR outsourcing**

“The appeal of outsourcing is undeniable” (PriceWaterhouseCoopers 2011). HRO isn’t like outsourcing in other parts of business. It touches every employee – and it requires a level of stakeholder management that HT is rarely able to achieve (Deloitte Debates 2010, 3).

Many HR areas – payroll, benefit, administration and retirement plans, for instance – are full-consuming, transaction-based tasks that rob HR of its ability to innovate. In fact, PWC’s 13<sup>th</sup> Annual research shows that more than 75 % of HR work hours are spent on transactional tasks. And 73 % of respondents to a recent Towers Watson survey said eliminating this administrative clutter as a primary goal of HR outsourcing (PriceWaterhouseCoopers 2011, 2).

Delegating such full-consuming tasks to an outsourcing provider tends to be an effective solution for the companies in order to free the HR department from the huge amount of routine work and help re-focus on a broader spectrum of strategic tasks, which deliver value to the overall performance of the company.

HR outsourcing has become a relatively recent phenomenon of business life, which gained popularity in terms of its broader scope of activities, which HR outsourcing providers became able to perform with the help of developing technologies.

### **2.1 Definition of outsourcing**

The definition of outsourcing is outlined by many sources and underwent changes since it became an important tool for many businesses. A dictionary of Human Resource Management refers “outsourcing” to “subcontracting” and provides a basic explanation. “Subcontracting is the process of having certain tasks and operations in the organization performed by other businesses in accordance with a set of agreed terms and conditions” (Heery & Noon, 2001, 353.)

Gómez-Mejía et al. (2006, 70) define outsourcing as “a process by which employers transfer routine or peripheral work to another organization that specializes in that work and can perform it more efficiently”. This definition limits outsourcing only to the work, which considered routine and peripheral. As said above, nowadays outsourcing has a broader meaning than at earlier stages.

Macbeth (2008, 38) explain outsourcing as a *range of activities*, which are placed outside an organization’s boundaries and were either performed or never performed inside the organization. The last explanation argues that outsourcing only recognized for activities, which were before performed “in-house”.

## **2.2 HR outsourcing phenomenon**

According to Edwards & Rees (2011, 305), many companies have used outsourced services, such as salary accounting, pensions planning, recruitment and training of personnel for a long time. With the development of technology and appearance of customized HR-software it became easier to improve these operations and pass a significant part of HR activities for outsourcing.

Demand for global integration made companies face challenges with opening and running units in new environments. This demand resulted in a growing amount of outsourcing service suppliers, operating globally and providing advanced schemes for adapting HR practices to new geographies. One of the leaders of global HRO service in Capgemini, Jason Gregory, says: “Not only can this reduce setup timeframes and costs, but it can also ensure consistent service experience, regardless of geography” (Gray, 2011). This statement is argued by Taplin (2008, 1): “Too often outsourcing is seen as a process that can be universally applied without any regard to country-specific issues or cultural considerations”. This argument will be discussed more closely in the chapter, concerning outsourcing concept in Russia.

As like many companies, searching for growth, HR outsourcing vendors gained knowledge in area of chosen activities through experience. This brings confidence and possibility to offer outsourcing services of a wider and deeper scope – for example,

related to developing relevant HR practices and strategic decisions. Nevertheless, many conducted studies state, that companies are still reluctant to outsource primary, value-added HR activities.

### **2.3 Factors affecting HR outsourcing decision-making process**

The decision-making process towards outsourcing, according to Morgan & Morgan, starts with the clear identification of objectives. It helps to “achieve cost control and other benefits” and “strike a deal with the potential supplier” (Morgan & Morgan, in Taplin, 2008, 59.)

Dessler (2009, 456) considers that outsourcing decisions have to be made in accordance with 3 factors:

- Employer size
- Financial pros and cons
- Strategic issues

Karthikeyan & others in the research paper “Making the HR Outsourcing Decision: Lessons from the Resource Based View of the Firm” proposes a wider view and claims that in making a decision about outsourcing of HR functions it is vital to identify HR activity as a core-related activity or not. Therefore, in accordance with their point of view, five criteria help to differentiate core-processes from non-core ones:

#### **1. Tacit knowledge**

“Any organisation, in its own way, operates based on a complex network of organisational routines based on tacit knowledge. Though these routines may seem to be simple sequences, they have a tremendous ability to support complex patterns of interactions between individuals even in absence of rules, directives, or significant verbal communication. In many ways, tacit knowledge can be considered a source of competitive advantage for an organization since it is valuable, not readily available in the market, difficult to initiate and not really substitutable.” (Karthikeyan et al. 2012, 89.) The authors argue that in-house managers possessed this knowledge by default and “have a greater advantage of

accomplishing positive outcomes by directing subordinate activity. With HR outsourcing, while contractually specified, methods and processes are difficult to incorporate if they are based on tacit knowledge.” (Karthikeyan et al. 2012, 89.)

2. Core-related specificity

“Core-related specificity is very similar to “internal relatedness”, developed by Bahli & Rivard who define the relatedness as interdependence or interconnections between tasks, business units and functions. When activities are highly inter-connected, the performance of one definite piece of work depends on the completion of other definite pieces of work. The greater the interdependence, the greater the need for co-ordination, joint problem solving and mutual adjustment. This makes it difficult for activities to be outsourced to outsiders. In such a case performing the activity in-house is the most preferred form of execution.” (Bahli & Rivard, in Karthikeyan et al., 2005, 89.)

3. Strategic criticality

The authors note that it is important to distinguish strategic activities from supportive ones. HR department can perform a supportive operational function or contribute into a strategy formulation process, which is significant for gaining the competitive advantage of the company. “It can be argued that is certain HR activities are considered highly strategic or mission-critical, it would not be left to outsiders.” (Karthikeyan et al. 2012, 90.)

4. Social complexity

Social complexity arises from a firm’s unique historical conditions, human interactions, transaction specific relationships, etc., which form an organizational culture of the company. “Therefore, it can be argued that for routine HR activities which require little understanding of the organization’s history, culture and relationships, vendors might be able to develop standardized procedures.” (Karthikeyan et al. 2012, 91.) “Activities with a high degree of social complexity

would not be outsourced since vendor would be unable to render a satisfactory service.” Karthikeyan et al. 2012, 89.)

#### 5. Causal ambiguity

“Causal ambiguity is the basic uncertainty surrounding the causal relationship between a firm’s resources, actions and results”. It is considered “one of the chief factors contributing to inimitability.”(Karthikeyan et al. 2012, 91.) In the presence of causal ambiguity it is difficult to external vendors to “design and deliver services consistent with the organisation’s given culture, strategy, operation and management system.” Karthikeyan et al. 2012, 92.)

Considering said above, it can be concluded that for making an HR outsourcing decision it is essential to understand to what degree HR functions, performed in-house add value to the overall positive performance.

### **2.4 What could be outsourced in HR**

After the decision to outsource is made, it becomes obvious what kind of service could be given to an outsourcing provider.

The scope of activities in HRM could be divided in 3 categories:

1. Part of activities;
2. Complete activities or business processes (training, recruiting);
3. Whole HR functional business scope.

(Macbeth, 2008, 45.)

It is assumed that back office operations, such as database recording, can be considered less risky to be executed by an outsourcing provider due to their simplicity. When it comes to business process and outsourcing of even a whole HR department, it is apparent that “taking it outside the organizational boundaries would present a serious organizational challenge”. (Macbeth, 2008, 44.)

## **2.5 Choosing HR outsourcing service provider**

Choosing an outsourcing service provider is a next stage for managers after the decision what to outsource is made. As said before, for easy-to-define services, like back office operational work cannot be compared to outsourcing of HR business processes. The latter requires more knowledge and expertise from the side of the outsourcing vendor.

According to Morgan & Morgan, in case of more complex services it is important that an outside provider has a clear understanding of the business area and its specifics. “This can take more time and demands a solid relationship between the parties and trust based on delivered performance.” (Morgan & Morgan, in Taplin 2008, 59.)

Jonh Hindle, a Vice President of Marketing Communications department in Europe at Accenture HR Services, believes that the “key to finding the right partner is establishing which one has the right cultural fit with your own business. As the HR outsourcing team will be an extension to your own HR department, it is critical that both client and provider understand each other values, visions, processes and capabilities, and that they match sufficiently to make the relationship more workable.” (Hindle 2005, 40.)

Hindle advises companies “to look for a single HR outsourcer that has mature solutions and can leverage deep industry expertise, as well as having a proven track record.” (Hindle 2005, 40.) The experienced partner can guarantee that problems and issues aroused could be addressed easily and promptly.

## **2.6 Advantages and disadvantages of HR outsourcing**

Taplin (2008, 1) notes that “outsourcing books that concentrate only on cost efficiency are out of date. Therefore, this chapter is an attempt to collect considerations as from different sources, revised or published in recent years.

Edwards & Rees define the following advantages of HR outsourcing:

Lower costs through: reduction of overall headcount, the payment of lower salaries, the greater division of labour and access to better ICT systems;

Higher quality work with reduced amount of potential mistakes, especially in routine processes;

Freeing up internal staff from to concentrate on more important strategic issues.

(Edwards & Rees 2011, 306.)

It is important to notice, that advantage concerning reduction of costs in this process can easily change into disadvantage. While in one case outsourcing save the costs, in another –only raises them; therefore it is necessary to undertake serious calculations on the stage of making a decision.

Bratton and Gold (2007, 215) note that “because HR suppliers are outside the organisation, it is argued that they are more accountable, can take more objective view and gain a more complete understanding of performance.”

Ulrich et al. (2009, 66) mentions one more crucial advantage, which can improve the company’s services: outsourcing vendors possess technology and the economies of scale that are up to date with new developments.

Gray examines advantages, which outsourcing could bring companies planning expansion to the global market: “outsourcing can provide infrastructure and services to support the processes while freeing up capacity, and ultimately allowing directors to focus on the operational side of expansion” (Gray, 2011).

Taking into account, that outsourcing comes from outside of the organisation, it is reasonable to address to what extent it undermines a company’s culture. Accenture argues HR outsourcing can undermine a company’s culture and, on contrary, supposes that outsourced HR processes can only reinforce company’s culture in 3 ways:



Giving access to workforce information regarding risks and opportunities  
providing credible and actionable data for decision-making;  
Empowering employees and line managers with access to information and the  
ability to initiate transactions in an easy and intuitive way –reducing time spent  
on back office administrative activities;  
Allowing the HR team to focus on strategic initiatives and empowering the  
workforce, moving less-strategic, admin-heavy processes to the outsource pro-  
vider.  
(Gray, 2011.)

Despite the positive views on HR outsourcing, there are also disadvantages it can bring  
to the company. Gomez names two:

- Risk of losing control over important activities;
- Risk of losing an opportunity to gain knowledge and information that could  
benefit company's processes and activities (Gomez-Meija et al., 2006, 71)

Edwards supplement the above list with an important observation. Negotiated out-  
sourcing contracts must be administered by a “new class of managers” (Edwards &  
Rees 2001, 307.) Managers need to deal with issues, that can arise, and sometimes these  
issues are located in so called “grey areas”, that have not been sufficiently thought  
through when the contract was negotiated, or that are new to the contract.

Talking about HR outsourcing, Taplin reminds, that “the human element itself always  
carries inherent greater risk as humans, according to organizational behavioural theory,  
are unpredictable, most especially when they are thrust into an unfamiliar way of work-  
ing, such as transferring the processes outside the organisation, or are perceived to be  
set adrift in a new situation within the loose context of their original company or a new  
one as in outsourcing” (Taplin 2008, 2.)

Thus, when a company makes a decision to outsource HR activities, all advantages and  
disadvantages need to be thoroughly addressed and anticipated risk taken into consid-  
eration.

### 3 Human Resource practices in Russia

This chapter outlines main characteristics of HRM in Russian Federation. The material is based on studies, conducted by Russian authors; articles, retrieved from local electronic sources, e.g. HR-related magazines. The author made an attempt to search for publications in last 5 years in order to present the most up-to-date information about the topic.

#### 3.1 Terms “HR” and “outsourcing” in Russia

According to Derbeneva (Derbeneva 2009, 20), terms HR (*э́йчэ́ф* – in Russian) and outsourcing (*аутсорсинг* – in Russian) are considered loan words in Russian language. The author states, that these terms appeared in Russian language in order to “distinguish close content-wise, but still different conceptions”.

It is noted, that with the appearance of entrepreneurial activities, the word HR has come next to existing in Russian “kadrovik” *кадровик* (clerk of personnel department) (Yande.Slovari). The author found out, that the scope of activities for HR person is wider, than the one for “kadrovik”.

The word “outsourcing” has appeared in order to describe a whole new process of delegating some functions to the third party (Derbeneva 2009, 21), The director of Department of Accounting Advisory Services of PKFI - network of legally independent member firms - underlines that in OKVED (Russian Classification of Economic Activities), as well as in the civil codes of Russian Federation, there no such activity as “outsourcing”. However, it is not implied that it does not exist in Russia. Traditionally it is still coded as Paid Services Contract or Tender Agreement (Yutskovskaya 2008, 11.)

Further in this chapter the background of this phenomenon in Russia will be investigated more closely.

### 3.2 Important historical landmarks

Talking about relevant historical events, authors claim, that comparing to other Central and Eastern European countries, Russia has been going through serious “transformation process” within past 20 years. If for European countries there was a clear “point of destination” – to re-join the wider Europe and adjust the living and working standards according to this goal, Russia is still seeking for her identity (Gurkov & Zelenova 2009, 278).

Suffered from well-targeted genocide and tradition of forced labour till 1990s, for almost 70 years of Communist regime, Russian people were excluded from a possibility to acquire skills for self-employment and entrepreneurship (Gurkov & Zelenova 2009, 279). The transformation process has begun in 1986-89, when new laws were adopted:

“Law of Individual Working Activities” (1986), which officially permitted any entrepreneurial activities and self-employment;

“Law on Enterprise” (1987), which stipulated the selection of general directors on enterprises by employees;

“Law on cooperatives” (1988), which de facto made legal the existence of the capitalist firm.

(Gurkov & Zelenova 2009, 279.)

People started creating cooperatives, which found their niches in goods’ production or providing private services. This system could not last long, as cooperatives simply took the funds from state to private pockets “by overpricing subcontracting and intermediary services” (Gurkov & Zelenova 2009, 278). This led to a total 1990’s shortage of basic goods and the end of Soviet Union.

Next stage of “transformation” process (from 1<sup>st</sup> of January, 1992 till 1998 22 of August, 1998) was characterized by adapting economic and social systems to a new form of living after the end of Soviet Union and changing the whole system of centralized planning. Galloping inflation, annihilation of savings frozen in state savings bank, barter exchanges between enterprises, large wage arrears were among the main features of

this period. This resulted in significant decline in employment, especially in industrial sector (8.6 million people). Qualified workers were forced to travel to Turkey, Poland and China to bring cheap garments, electrical appliances and footwear for retail sector. (Gurkov & Zelenova 2009, 280.) However, this period provided a good environment for Russian companies to learn basics of marketing and financial management: private sectors developed and levels of higher education expanded (labour market increased with economists, lawyers, financiers and marketers).

The current transformation process has begun in 1999 after severe crisis of year 1998, which resulted in devaluation of national currency. Revival of industry and elimination of foreign competition, favourable prices on world markets for raw materials (especially oil, gas, ferrous and non-ferrous metals) enabled the state to have a significant surplus and to assume once again a “patronage” role in society, launching pensions and welfare reforms” (Gurkov & Zelenova 2009, 280.)

Above described stages of so called “transformation process” showed the role of state in business life, which had a great impact on all HR processes.

### **3.3 Human Resources activities in Soviet Union and Russia**

In Soviet Union times HR function was considered second important task after level of production in the country. Therefore, it was strongly decentralized. There were 5 units responsible for managing personnel:

1. The local Communist Party committee, which controlled social atmosphere.
  2. The personnel department handled the everyday paperwork, related to hiring and firing people, assessing workers' performance.
  3. The local trade union, which dealt with social life of workers (holiday camps, kindergartens, sport events) and most important - allocation of housing.
  4. The salary department, responsible for salary administration.
  5. A special unit under the direction of chief engineer, dealing with job design and work safety.
- (Gurkov & Zelenova 2009, 284.)

This system did not reflect any clear HR policy, despite of the existing famous slogan “Cadres decide everything” (since Stalin’s times), broadly declared without any grounds. It can’t be said, that there were no HR strategies at those times, developed to serve the purpose of bright Soviet future, instead – there were, but mostly a mechanical combination of particular measures and initiatives (Gurkov & Zelenova 2009, 280). None of them was really designed to improve the levels of organisational performance, but mostly to serve 3 other goals:

To arrange with the industrial ministry higher rates for particular works;

To “squeeze” from the local authorities production facilities for housing construction;

To set low performance targets to have more reasons for quarterly and annual premiums and bonuses.

The authors consider above 3 “tricks” key problems in HRM in the Soviet Union (Gurkov & Zelenova 2009, 284).

After the elimination of the Communist party only one department – personnel department – was left to deal with HR issues. However, the amount of paperwork stayed the same. Salary administration was transferred to accounting department.

As a matter of fact, personnel department was separated from strategic decisions in the company (Gurkov & Zelenova 2009, 285). Moreover, HR department was not capable of executing any strategic decisions, because of the lack of qualification. Traditionally, heads of personnel departments were of two types – either retired KGB officers (industrial sector), or “women in their late forties, who had passed through all ranks in the personnel department, starting as receptionists and administrators” (Gurkov & Zelenova 2009, 286.) None of them had any special education, especially in relation to business knowledge.

Gurkov & Zelenova (2009, 286) note, that even nowadays vacancies of heads of personnel departments are mostly occupied by persons with the diverse background in

social sciences - former school teachers, psychologists, sociologists, lawyers, “personal assistants to the general director”, and so on. It is stressed by the authors also, that there are almost no cases, when heads of HR departments are promoted to the higher executive positions in the companies.

### **3.4 Characteristics of labour market in Russia**

In order to describe specifics of labor market in Russian detail, a separate study need to be conducted. Therefore, only main features will be briefly presented in this subchapter.

Despite significant economic and political changes in the Russian (and post Soviet Union) society, which supposed to have a great impact on employment in the country, Gurkov and Zelenova (2009, 282) state, that Russian unemployment rate stayed low, because of the “informal” – unregistered employment that was free from income and social taxation as well as from any legal regulation of working conditions, payment systems, etc. They estimated that in 2006 the size of the informal sector was 12 million people, which is 16-18 percent of total employment.

The work “Labor market adjustment: is Russia different?” published in 2011 by Higher School of Economics in Moscow discloses more important features:

1. Existing government low minimum wage policy, motivated by fiscal constraints, heterogeneity of the Russian regions and other political reasons, which helps to keep the high level of employment;
2. Unofficial wage payments up to 50 %, which deteriorate transparency in labor market ;
3. High wage flexibility, which increases poverty for working population, inequality between educated workers, depriving people of social protection;
4. Poor observance of laws, which explains non-understandable for foreigners the existence of stringent regulations on paper (bureaucracy) and remarkable flexibility in practice;

5. High labor turnover, which decreases the incentive to invest in human capital, including job-training provided by companies;
  6. Fear of unemployment from the side of workers and acceptance of flexible (here means difficult to predict) wages;
  7. Fear of workers' protests from the side of Russian authorities in case of implementing any reforms – therefore freezing reforms.
- (Gimpelson & Kapeliushnikov, 27).

Just a few mentioned above features shows that “the Russian model does not facilitate enterprise restructuring. In contrary it helps to save old jobs at the cost of creating new ones” (Gimpelson & Kapeliushnikov, 27). Such purposely kept condition of labor market does not leave any room for enterprises to work on a competitive advantage by implementing strategic decisions with the help of HRM. The latter, in its turn, is forced to struggle in the circumstances and overcome obstacles.

### **3.5 Recruitment as a challenging task**

Considering specifics of labour market and traditional functioning of HR departments, described in previous chapters, the processes of recruitment and selection of personnel are considered on Russian market quite challenging. In the circumstances of created reluctance of the companies to avoid training, the challenges become even higher – the Russian managers seek for qualified personnel, which at the same time require a minimal adjustment period. (Gurkov, Zelenova 2009, 287)

In addition, so called “personal connections” should not be taken out from the picture. In fact, the candidate is considered more “qualified” if he/she has a promising collection of “connections” with authorities, business partners and even competitors. (Gurkov & Zelenova 2009, 287)

With the help of a large amount of companies, providing recruiting services and using a wide set of new technologies, recruitment of the needed personnel nowadays became one of the most popular function for outsourcing.

### **3.6 Training and development of the personnel**

Despite the consideration, outlined by Gimpelson & Kapeliushnikov in subchapter 3.4 concerning reluctance of Russian companies to invest in human capital, most companies of a large scale nowadays understand an importance of training and development of the personnel. Respect for higher education amplified to appearance of many business institutions for professional education. There are various retraining programs available on the market for companies, which are ready to pay - from one-day seminars to tailored retraining options and internationally recognized MBA degrees (Gurkov & Zelenova 2009, 297).

Companies, which are ready to invest in retraining of the personnel at all management levels, recognize its positive outcomes for the overall company's performance.

### **3.7 Present situation and future prospects of HR outsourcing market**

At first recognized in Russia as a process of delegating routine (subsidiary) work to the third parties, outsourcing has gained its popularity especially after the world financial crisis in 2008. Mass lay-offs and cutting costs led companies to an understanding that there is no need to keep the whole departments running inside the company, but to use the expertise of outside providers in order to save costs and make some business processes more effective (Chernikova 2011, 442-443).

Outsourcing of different HR functions in Russia has shown its growth for 15-20 % within last 4 years and achieved 30 % by year 2010 (Chernikova 2011, 444). Connected with HR trends in business culture of Russia, HR outsourcing has its own specific features, outlined below:

Outsourcing of payroll administration (in other words –salary accounting) has been existed for more than a decade and proves its popularity in the nearest future as well;

Outsourcing of training and development has become an emerging trend quite recently and still needs to be elaborated;



Outsourcing of recruiting functions fulfils demand for highly educated and professional workforce and is on the 1<sup>st</sup> place in HR outsourcing in Russia since the financial crisis in 2008 after cut-backs of Mass Recruitment Departments.

- ✓ Still it is observed, that “qualification assessments” of potential employees are in need of development;
- ✓ Also attraction of third year graduates becomes more popular in the last couple of years;

Development of reward systems is recognized as a future potential trend by the experts;

Performance assessments of employees becomes tighter in order to maximize labour productivity, but this function is still traditionally executed inside the organizations;

HR administration functions are considered difficult to outsource due to complexity of the Russian legislative system. Malykhina (2007, 73) considers that after delegating HR administration to an outsourcing provider, HR specialists would be able to focus on strategic decisions and analysis of business trends; HR strategies are not yet well-discussed and implemented in Russian business environment. Searching of own HR-strategy is still a very challenging task for most of the companies and the main success factor is a existence of well-experienced HR team with good reputation (Malykhina 2007, 73)

Outsourcing of innovation technologies in HR is directly connected to strategic thinking of managers towards restructuring of all company processes, which has it constraints due to factors, described in above chapters (strict government policies, bureaucracy in legislation system, low level of qualified labor on the market, etc.). While these factors exist, and HR departments have to struggle, it is difficult to find a room for innovation models in long-term perspective. Presently HR outsourcing helps companies to fulfill short-term projects and solve temporary problems with lack of qualified staff. (Chernikova 2011, 446).

All abovementioned developments will put stronger demands on HRM function, which should take the lead in such changes. This demand will be met by quick dissemination of best practice via professional associations, informal communications

of HR managers, and wider use of external trainers and consultants. Already we may see in Russia an establishment of “communities of learning” within the HRM function. For example, the web portal [www.hrm.ru](http://www.hrm.ru) includes the professional monthly journal Personnel Management (with a circulation of 40,000), the “Cadre Club” (a think-tank and a platform for conferences), links to trainers, consultants, etc. The greater use of flexible working is also likely, especially for engineers and other specialists. This will include flexible working time, and more use of part-time employment and teleworking. Russian employer will also use sub-contractors for particular works rather than employing their own permanent personnel. (Gurkov & Zelenova 2009, 299-301)

## **4 Research Methodology**

The justification of the research strategy is based on the main research objective - to explore the need of the service in the chosen market area. This objective implies a marketing research to be conducted. According to Kotler, there are three types of marketing research: exploratory research, descriptive research and causal research (Kotler et al, 1999, 320). Considering that the present study is mainly focused on exploring the market potential for a product and attitudes of consumers towards the product, the research is considered to be descriptive, according to Kotler et al. (1999, 321). In this study product is equal to HR outsourced service. At the same time, the research tends to have some features of explorative nature, as it gathers “preliminary information that will help define the problem and suggest hypotheses” (Kotler et al., 1999, 321). According to Kotler et al. (321), “managers often start with exploratory research and later follow with descriptive or causal research”.

### **4.1 Research approach**

The approach to conducting the research was defined to be inductive, which “aims to formulate a theory as a result of the data’s analysis” (Saunders et al., 2003, 87.) The relevance of this approach could be justified by the fact that theoretical material, describing HR practices in Russia, was determined to be of significant value for the thesis after the collection of empirical data. In fact, inductive approach facilitated the process of linking the empirical findings to the theoretical material.

### **4.2 Research question**

The research question is formulated as follows:

- Is there any demand for Finnish companies, operating in Saint-Petersburg, to use HR services of a Finnish outsourcing provider?

### 4.3 Data collection

The research method was chosen to be qualitative and the main tool for data collection – unstructured and structured interviews.

The author designed a list of preliminary questions, which were reviewed and proved by the commissioning party. One unstructured face-to-face interview was used to explore the topic of the research in-depth and test the questionnaire. The interviewee worked on a position of HR director in Finland for 4 years and also had 1.5 years' experience working as a Country Manager in Russia, in charge of HR issues too. During this type of interview, according to Saunders et al. (2003, 247), "the interviewee is given the opportunity to talk freely about events, behaviour and beliefs in relation to the topic area". The interview was beneficial to the author's understanding of the themes discussed and provided new perspectives of the research topic. After the conducted interview some amendments of the questions and their order for the structured interviews were done.

Structured interviews use questionnaires on a predetermined and standardised or identical set of questions (Saunders et al. 2003, 246). The questions can be found in the attachments 1 and 2. It is worth mentioning, that during above mentioned face-to-face interview the author, with the help of the interviewee, decided to conduct interviews with 2 target groups inside one company, instead of only one, anticipated earlier, which will be explained further.

Talking about the choice of companies-participants for the interviews, it was determined by 2 dimensions:

The relevance to the market area (Finnish companies, operating in Saint-Petersburg);

The accessibility of participants for the researcher through references of the offices, located in Finland.

The commissioning party provided a list of companies in Finland, which had their representative offices in Saint-Petersburg. The author got in contact with the respective persons in the companies by e-mail and received further contacts details of the HR managers in representative offices in Saint-Petersburg. All potential participants were telephoned and requested to take part in the anticipated research. The interviewees were provided with the explanation of the research purposes and informed about confidentiality of the given information for further utilisation.

As a result, seven companies participated in the research. Six companies are representative offices of Finnish companies in Saint-Petersburg. The chosen companies operate in different industries and considered middle-sized companies. During interviews it was found out, that none of the companies attracted outsourcing providers for HR-functions, and outsourcing experience of some was only limited to technical support, security functions and blue collar employees. Seventh company operates as an outsourcing provider of accounting and business administration services for international companies, entering Russian market. Originally founded in Finland and later expanded to the Baltic countries, it has been operating in Saint-Petersburg for about 20 years.

Target groups of interviewees inside each of six companies were defined by the relevance to the topic of the research. One group of interviewees consisted of Russian HR managers, who shared their professional knowledge about HR issues on the local market of Saint-Petersburg and gave their evaluations of HR outsourcing market from the local perspective. Second group of interviewees were represented by expatriates, who possessed the experience of working in both business environments (Finnish and Russian) and provided their opinions from a wider perspective. Anticipated answers of both groups were considered by the author beneficial to each other for the purpose of getting a broader evaluation of the HR outsourcing market in Saint-Petersburg.

Work period of participants varies from 1.5 to 10 years. More detailed information about positions of the participants can be found in the figure 1. Due to the research ethics, the companies' names and names of participants are not disclosed.

<b>Company</b>	<b>Participant/ Russian</b>	<b>Participant / Expatriate (Finn)</b>
Company 1	HR Manager Russia	Technical support & Investmens
Company 2	HR Director	Commercial & Financial Director
Company 3	HR Director	CFO of the company
Company 4	HR Manager	Regional Director
Company 5	Head of HR department	Technical support & Project Management
Company 6	HR-manager	Regional Manager
Company 7		Sales & Marketing Manager

Figure 1. Table of participants

Time of each interview was agreed with participants beforehand and the participants chose the channel – over phone, e-mail, by Skype or face-to-face. Two thirds of participants preferred to answer questions by e-mail, one third – by phone. The length of phone interviews did not exceed 30 minutes (as agreed beforehand). Phone interviews were transcribed at the time of the interview. Additional specializing questions were asked straightway during phone interviews and by a separate message in the e-mail interviews.

Interviews with Russian managers were conducted in Russian, interviews with expatriates and sales & marketing manager of outsourcing provider – in English.

## **5 Empirical study on evaluation of HR outsourcing market potential in Saint-Petersburg**

In order to enter the new market successfully, it is important to thoroughly study the business environment. Finnish expatriates observed lots of distinctive features in business culture in Russia, which influence the process of decision-making, related to core business processes. Orientation on short-term goals, lack of trust, importance of hierarchy, influence of personal contacts and no attention to efficiency, marked out by respondents, makes HR outsourcing concept difficult to implement.

### **5.1 Characteristics of HR department in Russian companies**

Talking about differences between HR departments of Russian and Finnish companies, one of the Russian HR managers referred to a historical background of HR department in Russian company:

Russian companies were grown from private post-Soviet companies, where there was a special “master’s” approach with systematic control and personal perception. In European companies approach is different – mediate, where “master” role is delegated and important role is given to dividends and profit.

(HR manager Russia, Company 1)

The similar thought was supported by the manager of an outsourcing vendor:

In Russian companies it has traditionally been so that things are done inside the company, for example, what comes to accounting & payroll and HR documentation etc. They rather have accounting inside the company and their own chief accountant - this can also be because they want total control and "power" over their personnel and don't want to give out any "company secrets" (as very often there might be some non-legal schemes what comes to salary and tax payments etc.).

(Sales & Marketing Manager, Company 7)

10-15 years ago HR departments in Russia performed a role, limited to administrative tasks and hiring of personnel. This was a main difference, comparing to foreign com-

panies on the same market. It is worth mentioning, that nowadays the situation is changed. The importance of HR departments in Russian companies is significantly higher – they become active participants of business processes. Attention towards personnel is increased: training, development, assessment and employee engagement are important activities, recognized in HR departments of Russian companies (HR manager, Company 6).

Another important characteristic concerns decision-making process. It was mentioned, that while Scandinavian management is usually driven by common sense, Russian one – mostly by implementing standards (HR Director, Company 3).

Special attention needs to be paid to the specific features of the personnel. There is a difference between qualified and educated staff observed. Educational level of Russian people is high, but “Russians are not skilled” (CFO, Company 3). Thus, recruiting turns out to be a very challenging HR practice.

High personnel turnover results in great challenges in employee engagement. Finnish expatriates paid attention to a different compensation system, existing in Russia. Next to this, understanding of cultural differences plays a very important role in the approach to communication with employees.

Specificity of Russian legislation requires a special attention. Dealing with authorities in Russia requires knowledge of some “unwritten rules of the game”, which is different to more “clear-cut” approach in Finland (Sales & Marketing Manager, Company 7).

Finnish expatriates mentioned lack of the strategic approach towards HR practices in Russia. In this concern, several weak areas were mentioned:

- Leadership development;
- Coaching;
- Compensation & benefit area;
- Personnel motivation & engagement;



Retention of the personnel.

## **5.2 Factors influencing HR outsourcing decisions in Russia**

One of the Russian HR managers mentioned that, while implementing HR outsourcing concept on a Russian market, it is important to remember about cultural differences and take into account specifics of Russian employees' mentality.

HR manager "grows" with the company. There is a thing as "community", "group", where HR person creates an atmosphere of trustfulness. HR person knows everything about employees – about their families, children and problems. HR person monitors all the things, happening to an employee. Employees do not need "purely academic approach".

(HR manager, Company 1)

Another important factor, influencing outsourcing decisions, concern price for the service on the market.

The price for outsourcing of HR functions in Saint Petersburg market is very high. Price includes very high percentage for administration, insurance risks and other costs, which are then 30 % higher, than current costs for keeping the whole HR department. That's why it is not justified.

(HR Director, Company 2)

## **5.3 Advantages and disadvantages of HR outsourcing**

The respondents outlined the following advantages HR outsourcing could bring to a company:

- Increasing efficiency of the processes with professional support;
- Optimization and reduce of own HR costs;
- Opportunity to fulfil temporary projects;
- Reducing problems with lay-offs;
- Possibility to obtain a tailored set of documents for labor protection, training, organizing of corporate events;

Innovative approach.

Several disadvantages were named by the participants:

Lack of “individual service”;  
Less flexibility in processes;  
Lack of knowledge of company’s specifics;  
Lack of legal liability;  
High price of the service.

#### **5.4 Which HR activity is reasonable to outsource?**

All participants mentioned the following HR activities, suitable for outsourcing:

Salary accounting  
Recruitment  
Paper administration  
Administrative functions

It is important to refer to the opinion of the manager, working for the outsourcing provider, who underlined that recruiting and leasing personnel would be reasonable to provide, especially for foreign companies, searching for employees in Russia and not familiar with employment market (working regularities, salary levels, etc) (Sales & Marketing Manager, Company 7).

The interviewee also considered consulting an important service, needed at different stages of company’s life circle:

Legal consulting during the opening stage;  
Consulting on accounting and taxation issues during the development;  
Financial consulting during the crisis  
(Sales & Marketing Manager, Company 7).

As it comes to key HR activities, it was noted, that key HR functions (HR director/HR manager) could be outsourced by companies at the stage of establishment and development of the company, when an HR person is not always reasonable to have. With the growth of the company, it would be necessary to have own HR person, knowing the company “from inside out”, its specifics and its employees (Sales & Marketing Manager, Company 7).

## **5.5 HR outsourcing concept in Saint-Petersburg market**

As stated by several local HR managers, in HR Russian community there is still no clear understanding in of what outsourcing could bring to the company. Widely used by international companies on Russian market, HR outsourcing still does not appear enough convincing for the local managers, who seem to be sceptical towards the benefits of outsourcing yet.

Distinctive features of labour market also affect the slow growth of HR outsourcing.

Problems with the concept of outsourcing in Russia result from the wish of proprietors to maximize profits and minimize costs. There are lots of middle-competence professionals on the market, who are ready to work for low salary. This is considered normal. Laws are not always followed properly, and there is a possibility to solve problems with “money”, so companies very often do not want to pay for professionalism and prefer to keep low-skilled people for minimization of costs.

(HR Director, Company 2)

Even in these circumstances high-skilled professionals still can be outsourced, but only as consultants for temporary projects. There are cases, when company decides to keep them “in-house”, but normally it is in a form of constant employment (HR Director, Company 2)

HR outsourcing is a considered a reasonable business model if it optimizes time, optimizes resources, brings new ideas and only concerns non-core functions (Regional Director, Company 4).

However, business culture in Russia becomes more Western-like as the younger generation takes managing positions. Russian companies became more modern and western; the companies start to understand the positive sides of outsourcing (cost reductions as they don't have to pay salary + social taxes etc., lighter company structure, increase in effectiveness etc.) (Sales & Marketing Manager, Company 7).

## **5.6 Why to use Finnish HR outsourcing provider?**

Finnish respondents also named most common obstacles, faced by Finnish companies, starting their business in Russia:

- Understanding of cultural differences;
- Fulfilling legal requirements and bureaucracy;
- Dealing with authorities;
- Following Russian Federation laws in constantly changing legislation;
- Finding local key persons with the right mind set;
- Finding reasonably priced and honest staff.

Finnish companies, opening their business operations in Saint-Petersburg, might get some benefits, if they attract a Finnish HR outsourcing provider:

1. An opportunity to have a reliable Finnish/Western partner with high quality service and communication in same language;
2. An opportunity to focus on company's core business and make sure, it is conducted according with the current legislation;
3. An opportunity to support Finnish corporate culture;
4. An opportunity to utilize a wider scope of HR processes and strategic approach.

According to the manager of the outsourcing company in Saint-Petersburg, the experienced outsourcing provider with Finnish background would be a valuable asset for a company, if it is familiar with Russian business culture, accounting, law, company opening procedures, banks, etc.” (Sales & Marketing Manager, Company 7).

Nevertheless, Finnish expatriates demonstrated some scepticism towards international HR practices, which seem to be challenging to localize. It is important to follow the original corporate culture, wherever the company expand its businesses to, but also important to bring it into correspondence with local peculiarities (Commercial & Financial Director, Company 2).

## 6 Discussion

The subject research was aimed to explore HR outsourcing market potential in Saint-Petersburg, Russia and conducted in favour of the commissioning company, offering different types of HR outsourcing services in Finland.

In order to reach the objective, relevant theoretical material, related to HR outsourcing concept and its specificity in Russia, was scrutinized. Empirical part gathered the opinions of participants, possessing respective knowledge about HR practices, performed in Finnish companies, operating in Saint-Petersburg, Russia. The opinions contained valuable evaluation of the need for anticipated outsourced HR services in the chosen market area.

The results of the research were found practically applicable by the commissioning party, deepened its understanding of the subject market and increased its interest to exploring the researched area in-depth.

### 6.1 Key findings

Key findings, obtained from the empirical component of the research, were considered to be well in line with the anticipated theory.

#### Country-specific issues

Taplin (2008,1) underlined that outsourcing as a process should not be applied universally without cultural considerations and country-specific issues. Chapter 3 described significant economic and political changes, happened within 20 years in Russia.

With end of Soviet Union and two consequent financial crises of 1998 and 2008, the country has been going through the long transformation process. After fall of the “Iron Curtain” and flow of foreign investors, business in Russia were forced to absorb worldwide practices, which other countries were able to develop over a much longer period of time.

Entrepreneurial activities and co-operation with foreign companies forced managers to undertake lots of restructuring. HR departments replaced former “cadres” departments and personnel departments. Despite of the structural changes, simple administrative role of many so called HR departments remained same without significant changes.

Systematic approach and hierarchical thinking stayed strong in mind-set of Russian entrepreneurs. Therefore, the environment does not tend to be favourable for attracting an outsourcing provider. In contrary, European companies are more open for delegating power to outside companies.

Tight legislation creates lots of obstacles for foreign enterprises to conduct operations smoothly and efficiently. Many foreign investors are reluctant to expand their businesses to Russia, due to complexity of the legislation system. Nevertheless, companies are still willing to take risks in order to enter economically attractive Russian market and going through lots of struggling at different stages, such as registering of a company, dealing with state authorities, establishing business processes in accordance with local legislation, recruiting local staff. It is worth mentioning, that usually these processes are a lot smoother with the help of a good outsourcing partner.

### **HR outsourcing decisions**

Dessler (2009, 456) considers, that outsourcing decisions have to be made in accordance with 3 factors: employer size, financial evaluation and strategic issues. In Russia financial factor plays the main role, if it comes to a size of the company, wherein big companies demand all HR issues to be kept “in-house” and small prefer to save costs on having own HR team. In addition, price for HR outsourced services is considered very high, which force companies to avoid these services.

The important factor, influencing HR outsourcing decision is outlined in subchapter 2.3 and related to defining core activities of a company. It can be assumed, that if company operates in a service sector, HR could be acknowledged as a core competence. Unique historical conditions and mind-set of the people, described by participants, allows concluding that in many Russian companies HR remains a core-activity

by default, despite of the industry sector. As mentioned by one of the participants, HR person has a strong influence on corporate culture, and should not be a temporary hired “outsider” (HR director, Company 2). One of the well-recognized cultural characteristics of Russian employees is a tendency to dividing people into “owns” and “outsiders”. Consequently, the latter are understood as a threat to employees comfort zone. Tacit knowledge, mentioned by Karthikeyan & others (Karthikeyan et al. 2012, 89), remains in possession of the company, which makes difficult HR outsourcing to be incorporated.

Talking about strategic factors, Russian companies demonstrate a weak strategic approach to activities, performed by HR departments due to lack of qualifications (Gurkov & Zelenova 2009, 285). This fact was proved by opinions of Finnish expatriates, participated in the empirical research. However, the situation transforms and climate in HR communities changes towards learning and innovation. Various training programmes, appeared on the market, provide companies opportunities to invest in human capital in long-term perspective.

### **HR outsourced functions**

As outlined in the theoretical material and supported by participants’ opinions, following functions are considered reasonable for outsourcing:

- Salary accounting
- Recruitment
- Paper administration
- Administrative functions

HR functions, related to HR core activities are not likely to be outsourced and mainly kept “in-house”. HR professionals from outsourcing vendors are considered to be attracted only for temporary projects, due to either lack of resources, or lack of qualifications of the existing staff.



Development of reward systems, training and personnel assessment, strategy and innovation are still considered future potential trends on the HR outsourcing market.

### **Potential of Finnish HR outsourcing provider**

Hindle (2005, 40) considers outsourcing team an extension of own department of the company. Working with a Finnish outsourcing provider seems to be beneficial for Finnish companies, operation in Saint-Petersburg due to the following reasons:

1. Finnish outsourcing provider better understands values, visions, processes of a Finnish company and can provide support of Finnish corporate culture;
2. Finnish outsourcing provider can offer communication in the same language;
3. Finnish outsourcing provider gives more credibility in co-operation, due to the similar background;
4. Finnish outsourcing provider can bring a broader scope of HR practices, lacking on Saint-Petersburg market.

However, Finnish HR outsourcing provider is considered a valuable asset for a potential customer, if it has a deep knowledge of Russian business culture and particularly specifics of HR practices.

## **6.2 Reliability and validity**

Saunders et al (2003, 101) suggests measuring the reliability of the research by three questions:

1. Will the measures yield the same results on other occasions?
2. Will similar observations reached by other observers?
3. Is there transparency in how sense was made from the raw data?

In author's opinion, same results could be achieved by other observers under the same circumstances. Time factor should be taken into consideration as the situation on the chosen market changes. The author considers that the transparency of the data is

proved by repeatability of the answers, gathered from the interviews. It can be noticed from the interviews, that many participants shared similar views on same subjects.

As soon as qualitative method does not require large samples, a total amount of seven companies interviewed was enough to consider the findings reliable for measuring the HR outsourcing market potential. However, the author understands that in order to provide more credible evaluations of the market, the sample need to be bigger and involve companies, experienced co-operation with HR outsourcing service providers on the chosen market.

Taking about participants' opinions, the author does not assume any participant bias or participant error (Saunders et al. 2003, 101), occurred during interview processes. The author does suspect participants to demonstrate any bias due promised confidentiality of their answers.

Author, as an observer, tried to avoid observer bias and observer error (Saunders et al. 2003, 101) by clarifying incomprehensibilities with additional questions during the interviews.

The issue of measurement validity has to do with whether or not a measure of a concept really measures that concept (Bryman & Bell, 410.) There are two types of validity: internal and external.

Gray (2009, 515) says that internal validity shows a clear connection between evidence and the theoretical ideas that are developed from it. The author considers that the findings are clearly in line with the objectives of the research.

External validity is referred to generalizability (Saunders et al. 2003, 102). Considering the limitations of research, the findings tend to be applicable to a limited amount of companies, operating on the chosen market (such as, Finnish) and useful for Finnish HR outsourcing provider, interested in expanding its business operations in Saint-Petersburg.

### **6.3 Recommendations for commissioning party**

The author considers that the potential for offering HR outsourcing services exists. Its strength could be measured by the scope of the services, which the Finnish provider would be capable to offer. Having Finnish provider on the market would be a valuable asset for Finnish companies, starting their operations in Saint-Petersburg. However, it would not be possible without a reliable local partner, very well familiar with local legislation and way of thinking. Taking into account a tight co-operation between Russia and Finland, especially Saint-Petersburg area as the closest to the border, the author does not see any severe obstacles in searching qualified local personnel as well. Nevertheless, this process needs to be done very thoroughly, and the commissioning party needs to estimate all the possible risks.

As regard to the scope of outsourced services, needed on the market, the commissioning party has quite a limited choice: salary accounting, paper administration and recruitment are not considered reasonable due to lack of knowledge in these areas. A primary interest could be aimed at strategic activities in a form of consultancy on temporary basis. The consulting could be demanded at different stages of the companies' development, more advisable at the opening stage.

Taking into consideration the fact, that HR departments of foreign companies pay more close attention to training, analysis of the job market, evaluation of the psychological climate, Finnish expatriates still struggle to enter the inner circle of strategic decision-makers, and often share same negative attitudes with their local colleagues towards the development of HR activities in "western" meaning. Nevertheless, the author considers that this attitude could change soon. Russia has been making a big progress in development of strategic thinking approach; technology and innovation are more widely used in businesses; many foreign investors come into Russian market and increase competition among foreign companies. HR outsourcing provider, well familiar with the western practices, could be a useful partner for the Finnish companies, entering the market.

The author assumes, that the commissioning party could find its niche in HR outsourcing market in Saint-Petersburg with the help of the local partner, possessing a deep knowledge about the HR practices in Russia. In author's opinion, the database of potential customers would at first consist of Finnish companies, operating in Saint-Petersburg, but in long-term perspective it would be possible to also attract other Scandinavian companies, interested in Russian market and at the same time expand company's activities in other regions (for example, Moscow). Providing such services to the local (Russian-owned) companies is not likely to be considered.

#### **6.4 Suggestions for further research**

The author considers that the conducted study contains general knowledge about the investigated market. In order to make further steps, there should be additional market research undertaken, such as the one involving Finnish companies with an outsourcing experience. However, it is also important to keep in mind that the business climate is changing fast, therefore the experience, companies have had with using outsourced services, especially in HR area, could be outdated.

In case the commissioning party finds HR outsourcing market in Saint-Petersburg market, the author suggests conducting additional researches on the following subjects:

- Potential competitors on the market

- Potential local partners

- Price policy of HR outsourcing services

The author would be pleased to provide relevant assistance in conducting further researches.

#### **6.5 Personal learning**

The thesis appeared to be a useful learning case for the author, as it helped to deepen the professional knowledge in the area of specialization through academic sources and practical observations.

The author found challenging, but interesting to explore a new concept of HR outsourcing. The commissioning party provided its help and invited the author for interviewing of its own employees – in order to understand how HR outsourcing process worked in real-life from the point of HR outsourcing provider. This brought more confidence while interviewing the participants. In return, interviewing the participants gave an opportunity to get practical knowledge about HR practices in Russia and compare them to the theoretical material.

Working with theoretical material and related concepts turned out to be complicated due to limited amount of up-to-date academic sources on the topic.

Another good learning point for the author turned out to be working with different databases (for example, EBSCO) and evaluating the reliability of the used sources (for example, advised by Google Scholar) in practice.

One of the challenging tasks was to collect information about outsourcing, and especially HR outsourcing, in Russia. Considering that these topics are not yet covered broadly in Russian sources due to lack of popularity (the factors were investigated in the material), the theoretical material of chapter 3 was taken only from one academic source and several electronic sources, not of academic qualification. Nevertheless, this did not impact the overall description of the potential market as empirical results seemed to prove the theory.

A big contribution to author's own learning brought interviews with Russian-speaking HR-professionals. This gave the opportunity to understand the terminology needed for searching local, Russian sources and also presenting the material.

One of the difficulties, recognised by the author was connected to the interviews with Russian HR managers. The interviews were conducted in Russian, and then translated into English. The author tried to be accurate with the translations in order not to lose the original meaning. Some of the observations were considered difficult to translate as they contained some specifics of the local cultural context.

The process of doing the research also contributed to the author's English language skills, which seemed to be improved, particularly in terms of academic writing.

Overall, the thesis project considered by the author successful in terms of the amount of new knowledge gained and the practical contribution, brought to the commissioning party.

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## Attachments

### Attachment 1. Questions for Finnish expatriates

1. How long have you been working for the company?
2. What are your main tasks and responsibilities?
3. What are the main differences and similarities in business culture in Finland and in Russia?
4. What are the distinctive features of HR department of Finnish company, operating in Saint-Petersburg? Are there any cultural differences should be taken into account?
5. Do you consider reasonable to attract outsourcing companies for HR-functions? Or is it better to have the whole operating HR department?
6. Which HR-functions could be outsourced?
7. What are the difficulties, faced by Finnish companies, starting operations on Saint-Petersburg market?
8. Would it be good for Finnish companies, opening their offices in Saint-Petersburg, to attract Finnish companies, which can provide HR-specialists, well familiar with Finnish way of doing business?
9. What are advantages and disadvantages outsourcing of HR could bring to the Finnish company in Saint-Petersburg?
10. Would your company use services of Finnish outsourcing company more likely, than a local one? On which stage of the company development it would be most needed?
11. Do you consider the experience of Finnish HR specialist useful when a Finnish company opens operations in Saint-Petersburg? Please, explain why.

## Attachment 2. Questions for Russian HR managers

1. How long have you been working for the company?
2. What are your your main tasks and responsibilities?
3. What are the main features of HR department of a foreign company in Saint-Petersburg? Does it have any cultural peculiarities?
4. Does the company work with HR outsourcing providers?
5. Did the company outsource HR services? Was the experience of working with an outsourcing provider successful?
6. What could be the reasons for companies to attract HR outsourcing providers?
7. Which HR-functions could be passed for outsourcing?
8. What are the advantages and disadvantages of HR outsourcing?
9. What are the reasons to use HR outsourcing services?
10. What do you think about HR outsourcing concept in Saint-Petersburg in general?
11. Would it be good to have an outsourcing company on the Saint-Petersburg market, offering HR service for Finnish companies, opening their operations in Saint-Petersburg? Would it be interested for you to work for such company and why?
12. Please, share your other observations if you would like to.

### Attachment 3. Questions for an outsourcing provider

1. How long have you been working for the company?
2. What are your main tasks and responsibilities?
3. What are the main differences and similarities do you observe in business cultures/approaches in Finland and in Russia?
4. What are the difficulties, particularly faced by Finnish companies, starting operations on Saint-Petersburg market? Does your company guarantee that these difficulties can be minimized/avoided with a help of your outsourced stuff?
5. What is the main reason for a Finnish company, starting business in STP, to request your services?
6. What kind of services are the most needed on the stage of opening of the company, development stage, crisis stage?
7. Do you consider outsourcing of HR functions (possibly a new line of business for your company) could be also needed for smooth further development of a new company?
8. Which HR-functions could be outsourced if needed?
9. Would it be good for Finnish companies, opening their offices in Saint-Petersburg, to attract Finnish companies, which can provide HR-specialists, well familiar with Finnish way of doing business?
10. What do you think about outsourcing culture in Saint-Petersburg in general?  
How relevant is it for Saint Petersburg market?
11. Do you consider the experience of Finnish specialist familiar with Russian culture useful when a Finnish company opens operations in Saint-Petersburg?  
Please, explain why.
12. Please, share your other observations if you would like to.